

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Mountjoy Analyst: Darrine Distefano Bill Number: SB 1481
Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 02-10-2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Personal Exemption Credit/Increases Amount of Credit for Individuals 75, 85, or 95 Years of Age

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would increase the senior exemption credit amount for individuals ages 75 or older, 85 or older, or 95 or older as of the last day of the taxable year. The credit amount would be increased to two times the senior exemption credit amount for individuals 75 years or older, three times the senior exemption amount for individuals 85 years or older, and four times the senior exemption amount for individuals 95 years or older.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effectively immediately upon signature and would apply to taxable years beginning on or after January 1, 2000.

LEGISLATIVE HISTORY

AB 1140 (Stats. 1999, Chap. 196) raised the income threshold under which taxpayers are required to file an income tax return by taking into account both the senior exemption credit and the recent increases in the dependent exemption credit.

SPECIFIC FINDINGS

Existing federal law provides various personal and dependent exemptions subject to certain income limitations. These exemptions are treated as deductions that reduce adjusted gross income (AGI). Exemption deductions begin to phase out as federal AGI increases above specified amounts.

Exemption credits begin to phase out at federal AGI levels over the amounts listed below:

Filing Status	AGI (1999)
Single/Married Filing Separate	\$119,813
Head of Household	\$179,720
Married Filing Joint/Qualifying Widow(er)	\$239,628

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Alan Hunter for GHG

3/16/00

Existing state law provides various exemption credits against the net tax liability, including a personal exemption and exemptions for dependents, blind persons, and individuals 65 or older. Unlike federal law, these exemptions are not deductions from AGI but are credits against tax. The exemption credit amount is indexed annually for inflation as measured by changes in the California Consumer Price Index. For the 1999 tax year the personal exemption credit and senior exemption credit are \$72 and the dependent exemption credit is \$227. Like exemption deductions under federal law, exemption credits phase out as federal AGI increases above specified amounts. The phase out amounts for an exemption credit is the same as the phase out amounts for the federal exemption deduction.

Under **existing federal and state law**, individuals with gross income and adjusted gross income below the applicable filing thresholds are not required to file an income tax return since the standard deduction and personal exemption deduction or credit would result in zero tax liability. The state filing threshold also takes into account the senior exemption credit.

1999 State filing requirements for most people

	Single/MFS	MFJ	HOH
No senior credit, 1 dependent	\$ 16,000	\$ 25,000	\$ 20,000
No senior credit, 2 dependents	\$ 22,000	\$ 31,000	\$ 26,000
1 senior credit, no dependents	\$ 12,000	\$ 21,000	N/A
1 senior credit, 1 dependent	\$ 18,000	\$ 27,000	\$ 21,000
1 senior credit, 2 dependents	\$ 22,000	\$ 31,000	\$ 26,000
2 senior credits, no dependents	N/A	\$ 24,000	N/A
2 senior credits, 1 dependent	N/A	\$ 30,000	N/A
2 senior credits, 2 dependents	N/A	\$ 35,000	N/A

(married filing separate (MFS), married filing joint (MFJ), head of household (HOH))

Through interaction with the **existing state law** regarding filing thresholds, the department would adjust the thresholds to take into account the increased exemption amounts. This could prevent the unnecessary filing for elderly taxpayers who fall under the state filing requirement.

Under **existing state law**, taxpayers who claim the senior exemption credit may make a contribution to the California Senior Special Fund in an amount not to exceed the amount allowed for the senior exemption credit.

This bill would provide an increased senior exemption amount for individuals who are at least 75, 85, or 95 years of age as of the last day of the taxable year. The amount of credit would be two times the existing senior exemption credit for individuals 75 or older, three times the existing senior exemption credit for individuals 85 or older, and four times the normal senior exemption credit for individuals 95 or older.

For example, using the 1999 exemption amount of \$72, the senior exemption would be for age 75, $2 \times \$72 = \144 ; for age 85, $3 \times \$72 = \216 ; for age 95, $4 \times \$72 = \288 . As the senior exemption credit for individuals age 65 or older increases as a result of inflation, the increased exemption credit for individuals who are 75, 85, or 95 or older would increase accordingly.

Implementation Considerations

This bill would complicate the computation of the senior exemption credit. Implementation would require additional tax form instructions. It could increase public requests for assistance and potential taxpayer errors.

Implementing this bill would not significantly impact the department's programs and operations.

FISCAL IMPACT

Departmental Costs

The department's costs to implement this bill are not expected to be significant.

Tax Revenue Estimate

Revenue losses under the Personal Income Tax Law are estimated as follows:

Revenue Impact SB 1481		
For Taxable Years Beginning 1/1/2000		
Assumed Enactment After 6/30/00		
(In Millions)		
2000-1	2001-2	2002-3
-\$61	-\$47	-\$49

This analysis does not consider the possible changes in employment, personal, income, or gross state product that could result from this proposal.

Tax Revenue Discussion

The impact of this bill would depend upon the number of taxpayers eligible to claim additional senior credits, the average credit claimed and the average credit applied against tax liabilities.

The above estimates are based on the department's latest personal income tax model and information from the 1990 census of population by age. For the 2000 tax year, approximately 400,000 tax filers would benefit from tax reductions as a result of this proposal. Estimates above reflect the fact that most seniors make estimated tax payments during the year.

BOARD POSITION

Pending.